DOCUMENT RESUME

ED 467 983 JC 020 600

AUTHOR	Strauss, Linda
TITLE	Trends in Community College Financing: Challenges of the Past, Present, and Future. ERIC Digest.
INSTITUTION	ERIC Clearinghouse for Community Colleges, Los Angeles, CA.
SPONS AGENCY	Office of Educational Research and Improvement (ED), Washington, DC.
REPORT NO	EDO-JC-01-10
PUB DATE	2001-12-00
NOTE	4p.
CONTRACT	ED-99-CO-0010
AVAILABLE FROM	ERIC Clearinghouse for Community Colleges. University of California at Los Angeles, 3051 Moore Hall, P.O. Box 951521, Los Angeles, CA 90095-1524. Tel: 310-825-3931. For full text: http://www.gseis.ucla.edu/ERIC/eric.html.
PUB TYPE	ERIC Publications (071) -- ERIC Digests in Full Text (073)
EDRS PRICE	EDRS Price MF01/PC01 Plus Postage.
DESCRIPTORS	*Community Colleges; Educational Economics; *Educational Finance; Endowment Funds; Federal Aid; *Financial Support; Funding Formulas; State Federal Aid; Two Year Colleges
IDENTIFIERS	ERIC Digests

ABSTRACT

This digest presents a summary of historical and contemporary community college funding sources and challenges. It identifies four main categories of funding: (1) state and local appropriations; (2) tuition; (3) federal funds, grants, and contracts; and (4) endowments. The discussion of state funding covers lump sum appropriations, funding formulas (the use of selected variables to calculate institutional need), and performance indicators (allocations based on the attainment of pre-determined standards). The digest states that institutional enrollment, space utilization, and benchmark indicators are the three most common elements of funding formulas. Research summarized in the article indicates that community colleges are becoming increasingly dependent upon tuition revenue. It also notes that the increased reliance on tuition has been accompanied by a rise in federal student loans and grants which has offset the financial burden facing students. Additional federal funding of community colleges include the Pell Grant program, the Strengthening Institutions Program Title III-Part A, funding for the Advanced Technology Education program, and Workforce Education funds (e.g., Carl Perkins Act). With respect to endowments, community colleges have experienced rapid growth due to contributions from local businesses and industries, but the reader is reminded that four-year institutions present stiff competition for endowment dollars. (Contains 15 references.) (RC)

Reproductions supplied by EDRS are the best that can be made
from the original document.

ED 467 983

Trends in Community College Financing: Challenges of the Past, Present, and Future

ERIC Digest

By

Linda Strauss

ERIC Clearinghouse for Community Colleges

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES
INFORMATION CENTER (ERIC)

- ☐ This document has been reproduced as received from the person or organization originating it.
- ☐ Minor changes have been made to improve reproduction quality.

- Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

JC 020 600

BEST COPY AVAILABLE

ERIC
Educational Resources Information Center

Clearinghouse for Community Colleges

Digest

December, 2001

EDO-JC-01-10

Trends in Community College Financing: Challenges of the Past, Present, and Future

By Linda Strauss, Ph.D.

Like all sectors of post-secondary education, community colleges face the challenge of generating sufficient revenue to uphold their missions. Many community colleges began as extensions of secondary schools, supported by public school budgets. In 1918, local funds provided 94% of community college income. This model proved insufficient, and state revenue, tuition and fees, federal funds, and gifts and grants quickly became contributors to community college revenues stream. Specifically, by the 1960's state appropriations became the major source of revenue, accounting for 34% of income. (National Center for Education Statistics, 1994). However, individual states vary in these percentages (Cohen & Brawer, 1996). During the 1980's, funding shifted from state and local support. In 1980, state support was 70%. By 1996, it had fallen to 50% (Merisotis & Wolanin, 2000). Of this remaining percentage, less was direct appropriations and more was distributed via funding formulas and performance indicators.

Sources of Funding

State and Local Appropriations

The prominence of community college funding is reflected in state legislation. A 1976 review of state community college legislation indicates that finances were most common (Martorana & McGuire, 1976). In July 2000, state policy makers identified financing higher education as issue number one (Educational Commission of the States, 2000). In addition to lump sum appropriations, some states have adopted funding formulas and performance indicators as additional or alternative mechanisms for funding.

Funding Formulas

Funding formulas use selected variables to calculate the amount of need for an institution. Each equation allocates dollar amounts depending on the institution's values for each variable. Although states determine different variables and weights, three primary elements in funding formulas are enrollment, space utilization, and benchmark indicators (Educational Commission of the States, 2000). Formulas can provide an equitable distribution of resources for each college. However, disadvantages can occur for smaller institutions if the benefits of economies of scale are not considered to cover fixed costs.

Performance Indicators

Performance indicators are another method of supplemental state funding. As of 2000, 30 states allotted resources to institutions based on attainment of pre-determined standards (Burke, 2000; Layzell & Caruthers, 1995). Although indicators are not the sole source of state funding, monetary incentives to achieve goals drive institutions to devote resources and priorities consistent with state priorities.

However, performance indicators can be problematic when the same indicators measure institutions with different missions. The indicators meaningful for two-year institutions may not be meaningful for four-year institutions. For example, graduation rate is the most frequent indicator used (Burke, 2000). Because many community college students do not intend to graduate, it can be inappropriate for two-year institutions. Hence, state governments should include all post-secondary constituents when developing indicators (Strauss, 2001).

Tuition

Tuition is a growing source of income. Merisotis and Wolanin (2000) chart increasing dependence of community colleges on tuition and fees. From 1979-1980 through 2001-2002, average tuition and fees have risen from $355 to $1,738 (College Board, 2001). While burdensome on students, corresponding increases in federal funding in the form of student loans and grants have occurred, increasing the ability of students to finance their education (Breneman & Nelson, 1981; Phillippe & Patton, 2000).

One means of increasing tuition revenue is charging differential tuition or fees for different programs and different students. Merisotis and Wolanin (2000) examined cost and price data to reveal differences in actual institutional costs in various disciplines (i.e. English vs. Computer Science). Although more states recognize these differentials, many do not recognize or reimburse these discrepancies. Breneman and Nelson (1981) suggest consideration be given to the type of program and the type of student. They recommend differential tuition for different students. For example, contracts might be negotiated with businesses at rates different from those for other students.

Federal Funds, Grant, and Contracts

Other federal funds have grown in importance. The American Association of Community Colleges and the Association of Community College Trustees asked the 105th Congress for four items to be included in Federal appropriations (AACC-ACCT, 1997):

1. Increases in the federal Pell Grant program
2. Continue the Strengthening Institutions Program Title III-Part A
3. Increased funding for the Advanced Technology Education program at the National Science Foundation
4. Maintain Workforce Education (Basic State Grants, Tech Prep, and Carl Perkins Act)

IC020600

Additionally, many community colleges are turning toward grants and contracts for services. Instead of relying on appropriations, community colleges seek out opportunities to serve the needs of constituents through entrepreneurial models (Merisotis & Wolanin, 2000). These activities include soliciting local and national companies for support, creating agreements for developing programs specific to corporate needs, and contracting with companies to retrain the current workforce.

Endowments

Community college endowments are growing quickly (Phillippe & Eblinger, 1998). In fiscal year 1989, the median community college endowment was valued at $226,171, by 1995, the median was $521,748. During this time, 175 community colleges created endowments. Phillippe and Eblinger (1998) also cite local business and industry as the number one source of endowment funding.

While endowments appear to be a logical source of additional revenue for community colleges, Seater (1995) points out they often face competition for endowment dollars from four-year institutions. Hence, although a promising source of revenue, endowments can be difficult to establish, and can require a significant investment of time nurturing philanthropic relationships with local businesses and philanthropists.

Importance of Mission

In order for community colleges to remain financially solvent, they must continue to diversify their funding sources. One strategy to maximize success across multiple funding sources is for community colleges to be clear about their mission (Strauss, 2001). By clarifying their missions, community colleges can excel at achieving standards mandated by performance indicators, and meet the challenges that funding formulas present.

The continued use of performance indicators calls for the involvement of representatives from all sectors of post-secondary education. State legislatures and other key finance decision makers need to understand that the missions of community colleges should not necessarily be measured with the same indicators as other sectors of post-secondary education (Burke, 2000; Ewell, 1998). One way to ensure this is for community colleges to have a clear articulation of their mission and goals.

Conclusion

While fiscal challenges facing community colleges are difficult, diversifying funding sources and clarifying mission statements can help. Funding challenges may lead to greater community college representation in the federal and state discourse on post-secondary education, and subsequently greater visibility of community colleges. By clarifying the important role that community colleges play in educating and re-educating the workforce, community college representatives could facilitate their own funding, and continue to serve their targeted populations and fill the needs of the country as community colleges were intended to do.

References

American Association of Community Colleges and Association of Community College Trustees (1997). AACC-ACCT Community College Agenda for the 105th Congress. (Eric Document Reproduction Service No. ED 403003).

Breneman, W. D. & Nelson, S. C. (1981). Financing Community Colleges: An Economic Perspective. Washington, DC: The Brookings Institute.

Burke, J. C. (2000). Performance Funding: Popularity and Volatility. Paper presented at the National Association for Institutional Research Forum, Cincinnati, Ohio.

American Association of Community Colleges and Association of Community College Trustees (1997). AACC-ACCT Community College Agenda for the 105th Congress. (Eric Document Reproduction Service No. ED 403003).

College Board (2001). 2001-2002 College Costs: Keeping Rising Prices in Perspective. http://www.collegeboard.com/article/1,,6-29-0-4494,00.html?orig=sch.

Educational Commission of the States. (2000). State Funding for Community Colleges: A 50 State Survey. Center for Community College Policy: Denver, CO. (Eric Document Reproduction Service No. ED 449863).

Ewell, P. T. (1998). National trends in assessing student learning. Journal of Engineering Education, 87(2), 107-103.

Layzell, D. T. & Caruthers, J. K. (1995, November). Performance funding at the state level: Trends and prospects. Paper presented at the annual meeting of the Association for the Study of Higher Education, Orlando, FL. (Eric Document Reproduction Service No. ED 391406).

Martorana, S. V. & McGuire, W. G. (1976). State Legislation Relating to Community and Junior Colleges, 1973-75. Pennsylvania State University Press: State College, PA.

Merisotis, J. P. & Wolanin, T. R. (2000). Community college financing: Strategies and challenges. New Expeditions: Charting the Second Century of Community Colleges. Issues Paper No. 5. (Eric Document Reproduction Service No. ED 439737).

National Center for Education Statistics (1994). Current Funds, Revenues, and Expenditures of Institutions of Higher Education: Fiscal Years 1984 Through 1992. Washington, D. C.: U. S. Department of Education.

Phillippe, K. A. & Patton, M. (2000). National Profile of Community Colleges: Trends and Statistics 3rd Edition. Community College Press: Washington, DC. (Eric Document Reproduction Service No. ED 440671).

Phillippe, K. A. & Eblinger, I. R. (1998). Community College Foundations: Funding the Community College Future. American Association of Community College Research Brief 98-3. Eric Document Reproduction Service No. ED 424885).

Seater, B. (1995). Financial Decision Making During Economic Contraction: The Special Case of Community Colleges. (Eric Document Reproduction Service No. ED 384391).

Strauss, L. (2001). Addressing the Discourse on the Future of Post-Secondary Education: The Relationship between Mission and Funding in Community Colleges. (Eric Document Reproduction Service No. JC 010620).

This project has been funded at least in part with Federal funds from the U.S. Department of Education under contract number ED-99-CO-0010. The content of this publication does not necessarily reflect the views or policies of the U.S. Department of Education nor does mention of trade names, commercial products, or organizations imply endorsement by the U.S. Government.

U.S. Department of Education
Office of Educational Research and Improvement (OERI)
National Library of Education (NLE)
Educational Resources Information Center (ERIC)

NOTICE

Reproduction Basis

	This document is covered by a signed "Reproduction Release (Blanket)" form (on file within the ERIC system), encompassing all or classes of documents from its source organization and, therefore, does not require a "Specific Document" Release form.
X	This document is Federally-funded, or carries its own permission to reproduce, or is otherwise in the public domain and, therefore, may be reproduced by ERIC without a signed Reproduction Release form (either "Specific Document" or "Blanket").